



## Colombia Forestry Development Program

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Project Financing Assessment: Doña Maria Forest Industries



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Submitted by:  
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## SECTION I

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### Executive Summary

Chemonics International Inc. implements the Colombian Forestry Development Program, CFDP, under the United States Agency for International Development's (USAID) Strategic Objective #2: Promote Economic and Social Alternatives to Illicit Crop Production. The CFDP seeks to elevate Colombia's commercial forestry sector to a new level of competitiveness by placing it on a sustainable track and linking it to dynamic domestic and international markets which will unleash its rural development potential.

The objectives of the program are to increase employment and incomes for rural communities based on sustainable management of forestry resources, enhance technical capacity and increase competitiveness of the forest industry. The Program will also revise national forestry policies, design a financial structure, develop forest management plans, establish new plantations, and access new markets, while adhering to international grades and standards.

A key strategy of CFDP is to increase the profitability of plantation forest owners and managers by linking them closer to the timber users and recovering the maximum possible value from trees that are harvested. Many of the plantations being harvested today are not being replanted due to very low stumpage prices. Standing timber prices are the residual values of inefficient processing and marketing, high logging and transport costs and low economies of scale. This trend towards depleting the national forest plantation assets is reaching critical levels and will accelerate the pressures to clear the remaining natural forests, further eroding the sustainable growth potential of the forest sector.

In both the North East Antioquia and Bajo Magdalena regions, the CFDP is supporting private sector initiatives to attract investment capital to reforestation and plantation management, based on existing privately-owned plantations, well-linked to industrial enterprises and growing markets. These initiatives are being pursued as case studies of successful forest management enterprises which will be expanded to include additional independent landowners and create permanent jobs as well as new owners. In addition to leveraging its resources with those of the private operators and other institutions, the CFDP is developing mechanisms that will attract private investment capital to these projects.

## SECTION II

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### Prime International's Project Financing Technical Assistance

Prime International has been working with the CFDP to identify and define financing options and instruments related to the ongoing projects to demonstrate profitable, well integrated industrial forestry companies based on plantations in N.E. Antioquia and Bajo Magdalena. These initiatives are being pursued as case examples of successful forest management enterprises, well linked to industrial enterprises and growing markets

During the week of February 14 to 17, a number of meetings occurred with potential investors and lenders related to the N.E. Antioquia project of Industrias Forestales Doña Maria (IFDM) that have helped develop the project.<sup>1</sup> These meetings began with a presentation or summary of the results of several Colombia Forestry Development Program (CFDP) funded studies that were part of and supporting the feasibility of the IFDM. The essential elements were that with an investment of approximately \$10 to \$15 million<sup>2</sup>, IFDM could develop a profitable business from higher value use of current and future pine forests in N.E. Antioquia.

This report relates the main substantive discussions of those meetings in the context of how CFDP can facilitate the full transfer of the project to IFDM and its owners in the Grupo Ardila Lulle (Ardila) and the project's implementation thereafter. The thrust of this report is directed toward work and actions for financing the project. It discusses the interest and perspectives of different parties that may participate and would be needed in the project if it were to be implemented. Securing needed project financing is always the last step before actual implementation begins. This report should help understanding that project financing is a process that requires management of many developments simultaneously.

At this stage much work remains before the project is presentable to financial institutions for project financing. The project sponsor and its owners must do most of that work. For CFDP to facilitate the project further a clear and appropriate memorandum of understanding is needed to ensure, among other things, that IFDM is committed to implement the project if proved feasible by providing the needed resources to develop it further. Subsequent events have intervened and have changed the nature of commitments made in the February meetings. Recent public announcement regarding the sale of certain assets upon which the project was relying suggests that the project is likely to lie dormant until the new owners assess the assets and potential economic value. The new owners should be interested in discussions with CFDP regarding that economic potential.

Waiting for a strong commitment from IFDM or a new sponsor for the project is not the only action. Many of the recommendations remain valid. Reintroducing the Colombian forestry

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<sup>1</sup> Alfonso Uribe, Fernando Berrío, and Maria Paredes of Econometría participated in these meetings.

<sup>2</sup> This investment is cash investment above the initial capitalization through IFDM's contribution of approximately 1,600 hectares of mature forest to the project.

industry to the financial community with detailed presentations on the economic potential will start the bank's reevaluation of this economic segment. That will be generally beneficial for future forestry projects. Having Colombian banks understand the benefits of Development Credit Authority (DCA) guarantees is also helpful. Secondly, Colombia forestry project financing is very difficult and requires a studied approach. Working long term with banks, like BanColombia, is very useful to learn what projects have potential for financing in Colombia and which have little chance.

Continued dialogue with other institutions, such as Incubadora Empresarial de Producción y Comercialización Agropecuaria (Incuagro E.U.), Bolsa Nacional Agropecuaria (BNA), Corporación Nacional de Investigación y Fomento Forestal (CONIF), and other organizations, to learn of what needs to happen to make some projects viable are also useful. The restrictions on pledge timber still attached to the land are important for limiting their availability of collateral apart from the land. This limits any forestry firm from being able to finance its timber inventory easily. Tax credits are also important. Making tax credits available in a manner that enables Colombian corporations to invest in instruments that fund new forestry plantation development will likely have more near term impact in expanding or renewing Colombian forests.

## SECTION III

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### North East Antioquia Project: Doña Maria Forest Industries

#### A. Grupo Ardila Lulle

Following the initial presentation with Miguel Gutierrez, Vice President Finance of Ardila, Mr. Uribe informed him that with the completion of the IFDM project feasibility study CFDP will have taken the project as far as it could. Now was the time for the Ardila Group and IFDM to take charge of the further development and implementation of the project with CFDP continued support and investment under the Ardila/IFDM lead. Mr. Gutierrez agreed that CFDP and IFDM had undertaken a lot of important work to demonstrate IFDM's economic opportunity and that Ardila and IFDM would take charge of moving the project forward. Mr. Gutierrez was also interested in the continuing interest of BanColombia and in the commitment of the USAID mission to promote the use of a DCA guarantee for the project if the DCA requirements were met. He agreed that developing the best business and financial story and presenting to a variety of financial institutions might be the best approach for securing project financing. Ardila would appoint someone to work with Fernando Berrío in developing the project.

#### B. BanColombia

Following a summary of the IFDM studies, we made a number of points for Gonzalo Toro of BanColombia to consider. First, that we reasoned at the initiation of this project that we should develop the project documentation and information to tell the very promising economic story to the financial community and seek its guidance as to the best approach for financing the project. Secondly, we believed that making a presentation to a universal bank, such as BanColombia, would be the best approach because a universal bank is typically involved in all types of financial arrangements and would know which approach was most suitable in Colombia. Thirdly, we believe that technically the IFDM project may be suitable for debt securities but if that were the best approach, then it would be better if a Colombia bank introduced the IFDM securities into the marketplace to establish a long-term market for them. Finally, IFDM had financing needs for different maturities and purposes, and a universal bank would be better suited to providing all financing needs in one package.

Mr. Toro thanked us for our presentation and expressed continuing interest in the IFDM project and in the forestry industry in general. He said that IFDM would be wise to develop a high quality project information package and to consider all financing options. He made a number of observations regarding the project and offered some advice on what yet needed to be done in order to gain financial institution financing. He observed that:

- a. Colombian forestry industry had a number of good companies suffering through a depressed period;
- b. At present there appear to be good forestry industry opportunities worth considering;
- c. But the Colombian financial community is not favorable toward the forestry industry based on past loan losses;

- d. BanColombia's credit committee was very tough, remembering well the past failures in the forestry industry, and would not easily approve a forestry industry project, even one with high potential economic returns; and
- e. It was premature to try to finance this industry revitalization through titles due to the limited depth and breadth of that market. Perhaps conditions would be more suitable in two years.

Without committing BanColombia to financing the project, Mr. Toro offered the following advice on how to move forward to gain financial community interest and financing:

1. The Colombian forestry industry needs a reintroduction to the Colombian financial community giving general but substantive information on Colombia's potential for production and manufacturing of quality products as well as the potential markets for these products taking regional competition into consideration;
  - Provide current overviews of the Colombian forestry industry giving a true picture of today's product and market trends both the good and the bad;
  - Provide comprehensive technical, operational, business, and financial analysis of the business opportunities in Colombian forestry by national and international experts; and
  - Provide overview of regional industrial growth, primarily Chile and Brazil, with a short historical perspective on how they rose to their current positions.
2. Introduction of Ardila—IFDM project to select potentially interested lenders of the Financial Community
  - Truly interested banks may arise from the general industry presentation.

Mr. Toro expressed continued interest in the DCA guarantee issued from USAID's Office of Development Credit. He wanted to know whether this was likely to happen, what more needed to be done, and whether IFDM and Colombian banks could rely upon this guarantee to be provided. We made it clear that USAID Colombia had already reserved funding for the DCA guarantee costs for two CFDP projects, including the IFDM project. We stated that the Office of Development Credit would have to conduct its own thorough due diligence of the project, but that having the local mission reserve funding for the DCA guarantee costs was the highest hurdle.

We asked whether CFDP and IFDM would be permitted to review the project with the BanColombia and seek their advice on the information requirements and details of the project that would have to be developed before a Colombian commercial bank would consider the project for financing. He said that he would be happy to make those introductions to the BanColombia credit department and see if that could be scheduled.

### **C. FINAGRO**

After a summary presentation of the IFDM Project due to time constraints of Cesar Pardo, head of Fondo para el Financiamiento del Sector Agropecuario (FINAGRO), he informed us that FINAGRO would not be able to participate in the project because it was an industrial project and

not agricultural production per se. FINAGRO is quite willing to work with such an agro-industrial project provided it is presented to FINAGRO with a primary commercial bank. In this way, FINAGRO can finance those parts that are within its authority. BanColombia has worked with FINAGRO in the past on a number of projects and typically takes projects to FINAGRO when it determines FINAGRO's involvement is beneficial to the overall project financing.

He stated that FINAGRO was interested in financing reforestation and would work with CFDP on other forestry projects. He left us with the assurance that CFDP should continue to discuss potential projects with FINAGRO and that some involvement of FINAGRO would be developed.

#### **D. INCUAGRO E.U.**

Meetings with Incubadora Empresarial de Producción y Comercialización Agropecuaria (INCUAGRO E.U.) were both very helpful and confusing at the same time. The INCUAGRO E.U. presentation gave Fernando Berrío an opportunity to present the project details before a large audience charged with reviewing and critiquing the project. His presentation was supplemented by the CFDP developed slide presentation. Mr. Berrío made a very good case for the IFDM project and this meeting became an early rehearsal for the later meeting with Ardila. There were very good questions that were adequately and smoothly answered by Mr. Berrío.

INCUAGRO E.U. did not seem fully focused on its own program and potential consideration of the IFDM project. The Executive Director, Adriana Senoir, stated clearly that INCUAGRO E.U. would only be interested in an investment of \$1.5 million in the whole project and not three investments of \$1.5 million in each business segment of the project. Following the main meeting with INCUAGRO E.U. staff, Mr. Berrío met with Alfonso Jaramillo, who indicated that INCUAGRO E.U. would invest as much as \$6 million in the IFDM project.

The following week an INCUAGRO E.U. official indicated that the foundation wanted a dominant position in the project if it were going to invest. This position is unrealistic for the IFDM project. Though the cash financing needs of the project for investment in plant, machinery, forestry harvesting equipment, rolling stock, and working capital are estimated at \$10 to \$15 million, IFDM is contributing mature pine forests to the project conservatively valued at \$20 million if harvested for the lowest quality, lowest margin products. INCUAGRO E.U. should not be expecting a dominant position when it brings little additional strategic value or business, marketing or industrial expertise to the project that IFDM needs. INCUAGRO E.U. has presumably adopted this investment policy due to the fact that most of the rural or agribusiness projects INCUAGRO E.U. receives for consideration have little or no business expertise to figure out how to turn the project into an economic success without INCUAGRO E.U.'s help. This is generally not the case with more industrial projects but INCUAGRO E.U. may not have adjusted its policies to be able to work a development project in collaboration with industrial or larger commercial firms. The changing nature of INCUAGRO E.U. may be an evolving investment policy based on where institution's believes it can have the most impact.



## E. BNA

The Bolsa Nacional Agropecuaria (BNA) President, Gustavo Bernal, was very knowledgeable about the forestry industry and quickly grasped the essence of the IFDM project presentation. He stated that he personally has an interest in developing the Colombian forestry industry further and that BNA has taken a number of steps to try to develop forestry products. Several legal and policy impediments make this difficult at present. First, Colombian property and collateral laws do not permit taking a security interest in trees before they are severed from the land. Thus, it is not now possible to develop titles for securitizing the IFDM forests and use the proceeds to build the sawmill and wood product processing facilities and service the debt as the forests are harvested and turned into high value revenues.

BNA has and is working with the Colombian legislature to try to obtain changes to the law to permit securitization of standing forests. He said that the prospects of getting those changes this year are dim, though the government is generally supportive. He stated that he believed that it would eventually be accomplished to mirror other countries' laws and commercial practice.

We also raised the issue of potential tax credits that investors in forestry asset backed securities may receive. We stated that we know the tax regulations have not yet been written to allow such credits but would BNA be in favor of this approach. The President said of course BNA would be supportive as it would increase the interest and investors for this type of title, but until securitization of standing forests could be accomplished such a tax regulation would not generate any benefit. BNA will continue to work with the government and legislature on appropriate reforms and would welcome collaboration with CFDP on these issues.

We also raised whether BNA can work with IFDM to develop a put for an amount of cut timber from IFDM forests. BNA believes that it can certainly play a role in providing lenders in working with lenders on this issue. Technical details would have to be carefully reviewed.

## SECTION IV

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### USAID Review

A presentation was made of the preliminary results of the forestry evaluations and a recitation of the meetings with the above firms and organizations. This is a brief summary of some of the more important points discussed.

1. DCA guarantee is not possible for titles for IFDM at present but can be used to guarantee bank debt or bank loan syndication. Justification for usage of DCA guarantees is covered in several areas of USAID interest.
  - Stimulating the financing of the transformation of a depressed industry that would otherwise not likely happen due to the current financial community assessment of the Colombian forestry industry.
  - Providing market outlets for mature timber at higher than current pulp value giving incentives for reforestation by private landowners;
  - Provide new rural industrial employment for several hundreds working benefiting many families; and
  - Providing incomes in rural areas as an alternative to illicit crops.
2. A DCA guarantee could later be used to guarantee forestry industry titles after legal impediments were removed.
  - To stimulate capital markets development with agro-industrial projects that had early cash flows for service titles;
  - To enable forestry industry to develop long term financing approach to carry firms through the industry's business cycle; and
  - To enable banks to transfer long term equipment and forestry development debt to the capital markets and concentrate on working capital financing.

CFDP and IFDM would likely request usage of the DCA guarantee for the debt component of its project financing and again a few years later to start developing long term financing for forestry inventory through titles or asset backed securities. A DCA guarantee for the initial IFDM financing would encourage a very negative investment and financial community to invest debt and equity resources in the transformation of the Colombian forestry industry. A DCA guarantee on titles or securities backed by growing forests would stimulate development of Colombian capital markets to finance long-term timber supply for the growing transformed industry. Both uses would stimulate new financing of the forestry industry that had been previously foreclosed.

USAID questions were raised about the need for USAID assistance to the Ardila/IFDM, which had ample resources to implement this project alone. We provided several points in explanation:

- Like all business conglomerates, Ardila had many competing projects for its resources and the forestry industry had not received much new investment since the economic downturn of 1998-99. Clearly, Ardila would not have moved forward with further investment in the depressed Colombian forestry industry without USAID

- assistance showing the group the economic opportunity that the IFDM forests represented;
- USAID assistance also helped direct the direction of the project to substantial reforestation, community development, local employment, and alternative development;
  - Implementing the project is far from certain and much work remains. Ardila is committing to leading the project now with USAID assistance, while they may not have done this on their own or the timetable would have certainly been slower without USAID help; and
  - USAID assistance will help Ardila obtain the professional advice on project development as well as long term management to make sure that the economic opportunity is executed well and realized.

## SECTION V

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### Recommendations and Next Steps

IFDM and CFDP should maintain the momentum achieved by the professional study results and to complete the final project development work and financing so that implementation can begin. An agreement or memorandum of understanding between IFDM and CFDP is a necessary first step. While there are a number of positive elements from recent meetings and discussions, no project is financed until the closing occurs and funds are dispersed. The change of INCUAGRO E.U. shows that initial discussion may not prove true in the end. A number of suggestions are made of steps and actions in various areas needed to advance the project development toward gaining sufficient project financing in a manner that meets CFDP goals.

#### **A. Early Project Carve Out—1,000 hectares of community developed reforestation**

During the final meeting in Medellín, Vince Ruddy made an excellent suggestion that would both advance the IFDM project development and enable CFDP to achieve some early measurable success. Part of the IFDM project includes a plan to transfer 1,000 hectares of IFDM land suitable for pine forests to the local community for reforestation and management by the local community and its resident workers. The community is supposed to plant the new pine forests and provide forestry management maintenance until the forests are mature. IFDM Forestry Management Services unit would provide oversight. IFDM would then have long term contracts to have the exclusive purchase and harvest of the trees when mature at then prevailing market prices.

CFDP could condition further project support to implementing this portion of the IFDM project now. A brief outline of the arrangement is as follows:

- IFDM could enter into an agreement with the community and CFDP regarding the transfer of the hectares, the community commitment, terms of harvesting the mature trees, and CFDP support in accomplishing the reforestation;
- CFDP could fund the tree seedlings and other inputs to the community to enable expedited development of this piece of the overall IFDM project;
- The community residents would be contracted to plant the trees and maintain them until harvest under IFDM supervision;
- IFDM would have the exclusive right to purchase the timber harvested from the land at market prices; and
- IFDM could reserve in the agreement that the land reverts to IFDM if the community fails to live up to its material obligations under the agreement, like failing to maintain the forest or failing to honor IFDM's exclusive right to purchase the harvested timber.

#### **B. Follow up with Ardila Group**

Miguel Gutierrez has committed to Ardila and IFDM taking the lead in developing and implementing the IFDM project with CFDP providing support services. Ardila may be slow in realizing this leadership so that CFDP must push Ardila and IFDM to honor their commitment.

CFDP is moving forward with a Memorandum of Understanding (MOU) that is clearly the first step in solidifying Ardila's commitment. The initial draft has the major points, including provision protecting the confidentiality of the project. Suggestions have been made to improve the MOU with, among other things, a more functional confidentiality provision. Also including in that agreement a further commitment to develop the 1,000 hectares with a local community would be a plus for gaining additional evidence of Ardila's commitment and achieving CFDP goals.

CFDP has closely involved IFDM in all aspects of the studies that CFDP undertook on behalf of the IFDM project and now it should closely involve Miguel Gutierrez or his designee seeking his guidance, direction, and permission for each activity. Have Ardila and IFDM involved:

- In the reintroduction of the Colombian Forestry Industry;
- In meeting with USAID and DCA to gain a further understanding of the availability and requirements of this credit enhancement;
- In the improvement of the presentation for the IFDM project to select interested financial institutions, including export credit agencies supporting the purchase of sawmill and other needed equipment; and
- In further meetings with financial institutions individually.

### **C. Follow up with BanColombia**

BanColombia has not made any commitment to finance the IFDM project, but has signaled its potential interest in doing so, provided it continues to develop in a manner that demonstrates strong economic opportunity and the commitment of Ardila/ IFDM to support the project and manage its execution well. Closely working with BanColombia to review the development of the project now will gain its views on what must be done to gain Colombian bank financing. As long as the bank continues the dialogue, the bank is showing potential interest in financing the project. This dialogue will give IFDM and CFDP advice on what needs to be done to continue financial community and BanColombia in financing the project.

If the project continues to develop with positive economic potential, BanColombia is likely to be a strong candidate to finance the project. This will not be easy as it has a very tough credit committee based on its past experience with the forestry industry. But the benefits are high.

- BanColombia has the largest private bank branch network to service its clients and has coverage through much of rural Colombia;
- BanColombia has a very extensive foreign correspondent network, is listed on the New York Stock Exchange, and can facilitate all necessary equipment imports and sales of IFDM products to foreign markets;
- BanColombia as a universal bank can take care of IFDM's long term financing—whether funded entirely by BanColombia or syndicated to other banks—as well as working capital needs;
- BanColombia has an excellent working relationship with FINAGRO and can easily involve FINAGRO in some aspect of the project, such as the community reforestation of 1,000 hectares, as needed;

- BanColombia has an affiliated fiduciary if a patrimony autonomous or other trust services are required for the project, such as some aspect of the involvement of a cooperative and its members;
- BanColombia has an affiliated leasing company that could lease the equipment to IFDM business units;
- When titles for financing forestry inventory and management become possible, BanColombia can explore that possibility for IFDM and gain professional execution to enable a long term market for IFDM securities;
- BanColombia could interface with all other institutions including foreign export credit agencies, foreign investment funds and banks, and other export credit incentives to facilitate equipment, machinery, and supply imports; and
- BanColombia could provide IFDM with good employee financing services that could give IFDM workers in the three forestry industry segments with attractive financial services that could be a good benefit as an IFDM employee.

Ardila can certainly take over and develop that relationship as it chooses and should certainly be consulted throughout the process. However, until BanColombia indicates that it would entertain a formal loan application or until Ardila determine to submit one to BanColombia or another financing institution, having CFDP interface with BanColombia with information and requests for advice is useful both to the bank and IFDM.

- Make an informal presentation of the IFDM project to the BanColombia credit committee and learn of their concerns, project information needs, and other requirements before the project should be formally submitted to the bank for financing;
- Informally discuss the reintroduction of forestry industry with BanColombia to understand how best to make the reintroduction—time and location; invitees; industry representatives needed; content needed; format; suggested appropriate refreshments and ambiance; and
- Discuss how the IFDM project may be presented to the financial community following the general forestry industry reintroduction.

CFDP and IFDM can and should continue to pursue other banks and financial institutions that appear interested. Should another bank show interest in the project, such as Ban ColPatria that is financing some forestry industry production, then a similar approach to that bank as suggested for BanColombia should be undertaken. This is to mean that informal discussions with its officers and credit committee presenting the project and requesting assistance in learning what needed to be done to interest Colombian banks in financing the project and how.

This may be an appropriate time for CFDP to enter into a MOU with BanColombia on this and other projects. The purpose of this MOU would be to have BanColombia formally consider and provide advice and counsel on how to continue to develop the project for financing. An important commitment to obtain is that BanColombia would maintain as confidential any information that it receives regarding each project.

#### **D. Following up with INCUAGRO E.U.**

Despite the initial negative response of INCUAGRO E.U. regarding investment in the IFDM project, CFDP should continue to engage the organization to learn where they may be willing to invest. While they would not be able to take a dominant position in the IFDM project, they may be able to take a controlling position in the 1,000 hectare community led reforestation. Their investment in this portion of the project could be in collaboration with CFDP, the local community, and IFDM.

As INCUAGRO E.U. needs to have its capital returned in seven to ten years, arrangements could be made to repay INCUAGRO E.U. by having this forest securitized through titles (which may be possible by this time); by having a debt arrangement with the community and FINAGRO; or some other financing approach. INCUAGRO E.U.'s investment would also be more secure with the IFDM purchase contracts for harvested timber.

#### **E. Develop Forestry Industry Presentation for the Financial Community**

CFDP in collaboration with IFDM, Pisano, Madeflex, Refocosto and other industry firms should develop a very professional presentation of the Colombian forestry industry for its reintroduction to the financial community. The presentation should:

- Present global and regional trends for forestry product demand identifying the higher value products;
- Show the competition from regional countries both in products, volumes, revenues, and markets;
- Lay out the results of feasibility, evaluation, industry, market studies commissioned by CFDP that are Colombian forestry industry generic and do not reveal any firm's confidentiality information; and
- Present what can and should be achieved through industry transformation of its business strategy, product mix, and target markets;

Be prepared with long question and answer sessions to answer any and all questions. Stay until questions cease. Solicit additional private meetings with each institution to discuss potential project opportunities. USAID should be invited to attend and participate in these presentations, as it deems appropriate.

#### **F. Doña Maria Forest Industries' Project Presentation to Selected Financial Institutions**

CFDP in collaboration with Ardila and IFDM should develop and make project presentations to selected financial institutions. The institutions selected should be gleaned from those expressing an interest in the general session on re-introducing the Colombian forestry community. Each presentation of the IFDM project should be a private session only with the selected bank. Top bank officers, particularly credit officers should be present.

These presentations should be done after the presentation has been thoroughly reviewed by Ardila, the BanColombia credit committee, and perhaps the CFDP Investment Fund Advisory Board. The presenters should have rehearsals before a critical panel of CFDP staff. The presentation should be made to a wider group of BanColombia officers as Mr. Toro and the bank

credit committee advice. Shortly after these presentations, IFDM should be in a position soon thereafter to make a formal application to one or more banks for financing. Because of the high intensity of the process, IFDM should probably only make application to one bank at a time unless special circumstances dictate otherwise.

### **G. Further Project Documentation Development for Implementation**

Gradual organization and implementation of the project should proceed apace as information and studies are finished, Ardila makes a firm commitment to implementation, and leadership through IFDM begins. Of the foregoing mentioned items, the priority next steps are:

1. Executed MOU with Ardila and IFDM;
2. If possible, separate agreement (IFDM, CFDP, community, and other appropriate parties (INCUAGRO E.U. or FINAGRO, for example)) to develop 1,000 hectares for reforestation provided by IFDM;
3. Introduction of DCA to Ardila, BanColombia and other Colombian financial institutions;
4. Completion of feasibility studies and all sub reports, including marketing study;
5. Completion of business plan that include management, financial plan, site selection, and any other major project components not in the feasibility study. This document should be the primary story book for the IFDM project to investors and lenders;
6. Preparation of presentation documents for Colombian forestry reintroduction to the financial community and for IFDM presentation of banks;
7. Preview of IFDM presentation with BanColombia credit committee to gain insight on project development requirements for a Colombian bank to be interested in financing the project;
8. Presentation: Reintroduction of the Colombian Forestry industry to the financial community;
9. Presentation: IFDM project to interested banks approved by Ardila with presentation of management team to execute the project, if possible;
10. Preparation of final equipment and machinery listings for all business units and contacts made with manufacturers for exploring export credit programs available to facilitate financing;
11. Legal review to confirm business plan;
12. Preparation of corporate organization documents for IFDM project business entities;
13. Preparation of contracts between various entities with firm commitments on purchase (bank may later require provisions giving lenders floating security over a portion of the revenue streams of timber as it is processed and marketed);
14. Preparation of construction, architectural, and engineering drawings and documents;
15. Formal application with one or two financial institutions that have expressed interest in the project;
16. Delivery of all documentation and information to the lender;



17. Bank due diligence process of reviewing all documentation (greatly accelerated with IFDM prior thorough preparation and early meetings with BanColombia credit committee);
18. Meeting the bank's requirements and conditionalities in order to obtain a financial commitment; and
19. Closing of debt and equity financings for the IFDM project.

Though these items are set in priority, there is no absolute need that they be undertaken exactly in order. Rather, Ardila and IFDM will now have to manage a process of developing the project further and obtain the needed financing for completing that more or less simultaneously. Other requirements will arise as investors and bankers demand. But this is the general process that IFDM will have to go through in order to unlock the value of its mature forests and get its project financed.

From the outset of this project, it has been assumed that the IFDM contributed project assets—primarily the mature pine forests—are of sufficient monetary value to serve as dedicated security to finance the project without additional corporate or investment group guarantees. Due to the illiquid nature of the forestry assets, however, it is necessary that all investors and lenders be informed of the detailed business strategy for converting the forestry into higher value wood products and ultimately into higher revenues. Otherwise, IFDM is unlikely to obtain the additional cash resources needed to build sawmill and wood processing facilities, purchase needed equipment and machinery, and build necessary forest infrastructure.

This business story has to be fully explained to show investors and lenders from where the revenues to cover debt service and equity returns come. Prior to officially presenting the story, it must be fully verified to the extent possible with professional evaluations, documentations, and studies to show IFDM forestry industry business opportunity has a strong probability of achieving the proposed results provided that the IFDM management team executes the plan well. Much of that work has been largely completed.

## SECTION VI

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### Suggested Short Term Actions

The following additional review and preparatory actions are near term measures necessary in order to implement the project. Undertaking them in the near future will prepare information and documentation that investors and lenders will need to assess fully the investment and credit risk of the project.

#### A. Business Plan

IFDM needs to develop a comprehensive business plan included the evaluation results and recommendations from the various studies. Normally, a business plan is developed before many evaluations and confirmation studies are undertaken even now it is necessary for several purposes. The business plan will serve as the business goals for the management and employees of the IFDM project business units. For these purposes, it should be a living document that is revised as business experience demonstrates the need for adjustment. This will help temper business and financial projections with updated reality.

Secondly, it can serve as the basic story document for financial institutions when the project is formally presented to lenders for financing. Though IFDM and CFDP have met with several bankers in presenting the general outline of the project and the recent study result confirming the studies, many bank credit officers and loan analysts need to review every aspect of the project during the conduct of their due diligence.

A business plan will enable these officers and analysts to grasp the fundamentals of the project quickly and enable a more expeditious project review. The business plan reveals the story of the economic opportunity in a manner that they project sponsors want. Yet, the more thorough the business plan is, the more confidence that the lenders are likely to have that IFDM and its management team understand the business opportunity completely and know how execute the plan.

The business plan may and should borrow heavily from the feasibility study depending on whether all business questions are fully covered. For example, at the time of this assignment, the site of the sawmill and millwork facility had not yet been selected. Nor had a management team to execute the plan been selected, although position descriptions for the primarily managers had been prepared. This should be completed as soon as possible and prior to the IFDM presentations to financial institutions. Bankers if interested will immediately ask for it and if a formal application is not accompanied by the business plan it will look as if the project is not well developed yet.

Within the business plan should be a project development budget that details the line items and costs for implementing the first phase of the project. This phase still expends mostly soft development costs that firm up the project for implementation—financing preparation, legal and accounting reviews, architect and engineering drawings and blueprints, equipment procurement plans, and the like.

To a degree, all projects have their own implementation schedules depending upon the circumstances of the project, availability of equity and debt capital, and commitment of the project sponsors and owners to implement the project. As Ardila's commitment become more firm, the following work should proceed.

## **B. Legal Review**

The legal review is a very thorough assessment of all aspects of the project to ensure that the proposed ownership, organizational and operational structure, proposed business operations, and projected financial statements are within the laws and regulations of the Republic of Colombia. The legal review should produce a project legal memorandum that carefully detailed all legal aspects of the N.E. Antioquia project and note any issue, difficulty and legal solutions. The legal review will organize and catalog all IFDM and investor related documentation.

- Review all studies conducted to date regarding evaluation of the IFDM project including the forestry plantation confirmation and valuation; plant site, engineering and equipment and operational program; and marketing;
- Review all titles and documentation regarding the forestry plantations that IFDM is contributing to the project to ensure proper ownership, including the land site for the cut timber inventory, sawmill, and woodwork and millwork facilities;
- Develop the appropriate corporate structures for the project business units and incorporate, register, and complete legal organization to make all units legally operational, taking into consideration organizational issues for operational efficiency, investor participation, tax, and other organizational issues.
- Develop appropriate long term contracts between the IFDM business units for the purchase and processing of harvested timber based on annual minimum requirements and definitive pricing formula. Contract terms should be for ten years or the term of debt financing the project, whichever is longer.
- Obtain documentation from the USAID Office of Development Credit to verify and confirm the terms and conditions of a DCA guarantee as the full faith and credit of the US Treasury.

## **C. Architects and Engineering**

The feasibility study has provided basic schematics for company officials, investors, and lenders to consider for financing the project. Typically, the project will not be able to close the financing until construction drawings and blueprints are developed and this is substantial greater work than has been done for feasibility study purposes. Equipment and machinery procurement plans will have to be firmed up as these drawings are developed.